





## ***Session # 18***

**Direct Consolidation Loans --**

**Partnering a Process for the Student**



# *Consolidation is about debt management*

It is about the best solution for individual borrowers to manage debt

It is about institutions, lenders, and the U.S. Department of Education working together to assist our student customers



# *The Consolidation Process*

## ■ **Our part of the partnership**

- Receiving and expeditiously handling an application from a borrower
- Contacting loan holders for payoff amounts
- Paying off loan holders accurately
- Consolidating the underlying loans into a consolidation loan with one monthly payment



# *The Consolidation Process*

## **■ Your part of the partnership**

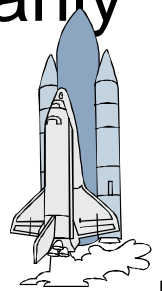
- Exit counseling student borrowers, as they leave school, on consolidation as a debt management option
- Completing a verification certification form
- Applying timely payoffs to borrower loans
- Adjusting promptly for over and underpayments



# ***History of the Program***

Late summer 1996 the Department of Education begins to implement, in earnest, Direct Consolidation Services

- Unanticipated problems ensued which resulted in a serious backlog of applications
- On August 26, 1997 the Department temporarily suspended the program to new applicants
- On December 1, 1997, with procedural improvements, new quality control processes and contract oversight, we began to accept new applications





# ***Consolidation Works***



- Consolidated 1.7 billion dollars between October 1, 1998 and January 31, 1999
- 913 million from FFELP borrowers
- 786 million from Direct Loan borrowers



# ***Consolidation Works***

*(continued)*



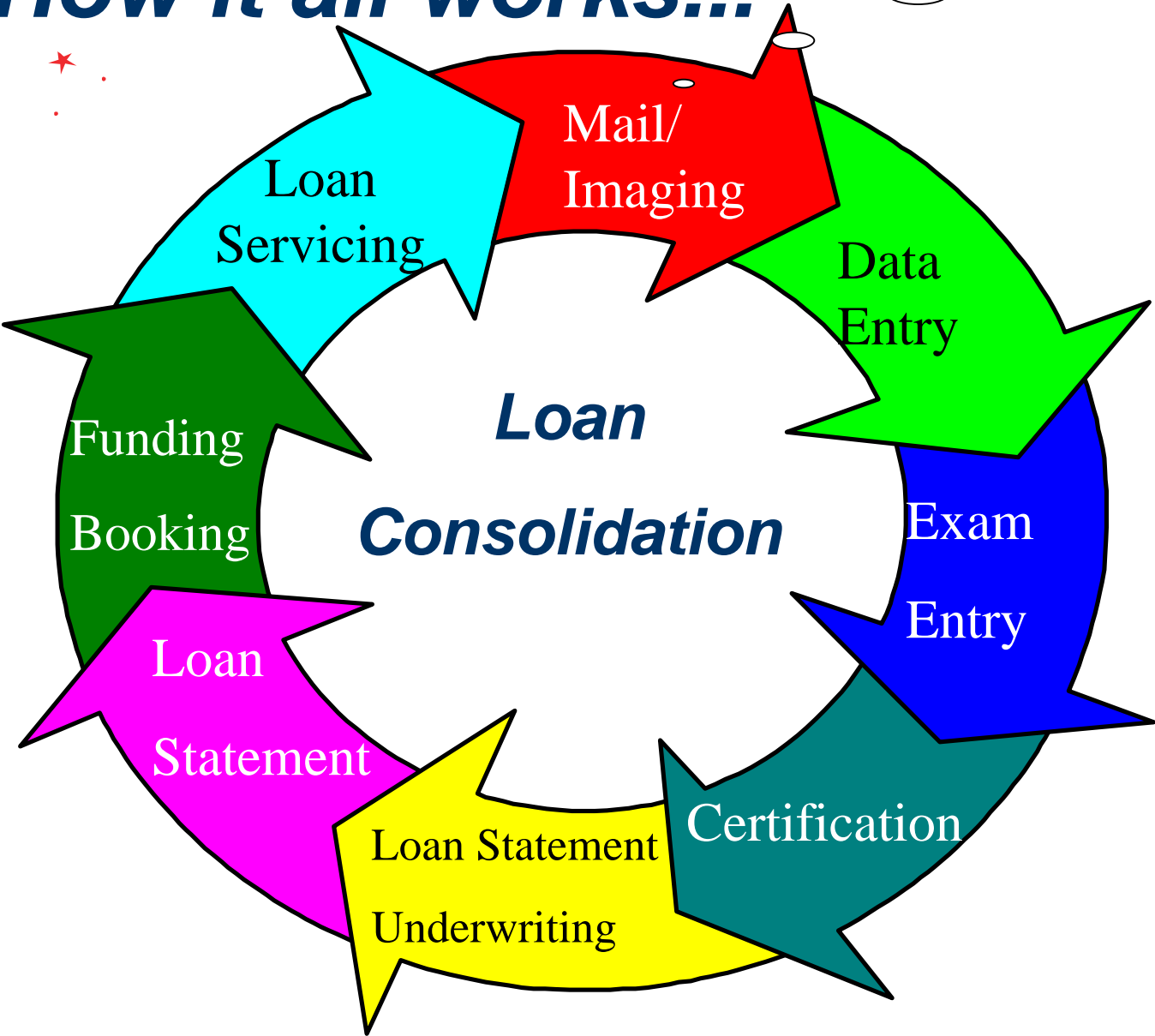
- Made more than 200,000 consolidation loans through our normal processes since December 1, 1997
- Have booked more than 153,000 loans at 7.46% under our normal process with an average time to booking of 47 days
- Are making more than 185,000 loans through a special Express Refinance process offered to Direct Loan borrowers





Start Here...

# How it all works...



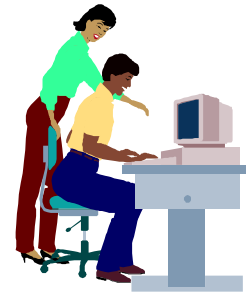


## ***Mail Room / Imaging***



- Application received (paper, phone, WEB)
- Does application have a SSN, Name, and signature? If not application is returned to the customer
- Paper applications are scanned and indexed

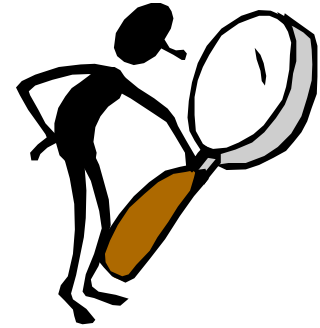
# *Data Entry*



- Every application is double data entered to ensure accuracy
- WEB and phone applications bypass this stage



## ***Exam Entry***



- Application reviewed for completeness
- If incomplete, missing information is researched and borrowers are called if necessary
- If unable to obtain missing information, application returned to the borrower



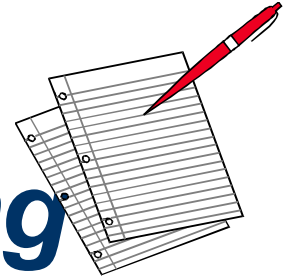
# ***Certification***



- If Plus Loan, credit check performed
- If ICR Waiver received, ICR is sent to the IRS for validation
- Electronic Certification Process
  - DCS / DLSS / Sallie Mae
- Paper Certifications mailed
  - Loan Holders, Guarantee Agencies, Schools



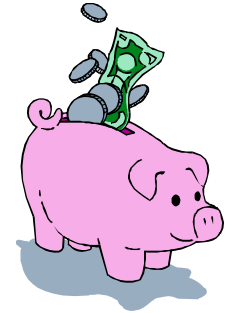
# ***Loan Statement /Underwriting***



- If a borrower has more than six loans or a loan balance greater than \$30,000, the loan is verified by the underwriting unit
- Loan Statement mailed to the borrower
- Loans are scheduled for payoff in 10 days from the date of the Loan Statement if the borrower does not indicate that a change is needed



# ***Funding & Booking***



- Loan holders are paid by:
  - Check
  - SF1081
  - Electronic Credit
- Loan transactions are sent to the Direct Loan Servicing Center electronically



# ***Direct Loan Servicing***



- Direct Loan Servicing sets up a new consolidation account for the borrower
- The borrower is sent a “Welcome Letter” and advised of payment obligations





# *Why Consolidate?*

**AFFORDABILITY**

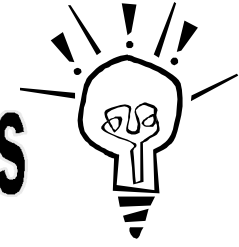


Borrowers can pay less each month



# ***Why Consolidate?***

## **New Weighted Average Interest Rates**



***The interest rate on each underlying loan and ratio of that loan amount to the total loan amount is used to calculate the interest rate on the consolidation loan***

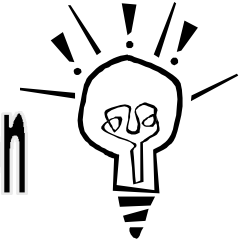
***Current weighted average rate will never exceed 8.25%***

***Rate is fixed for life of loan***



# ***Why Consolidate?***

## ***Weighted Average and In-School Loan Consolidation***



***In-school = A loan that has never gone into repayment***

***Underlying interest rate is either 7.66% or 6.86% depending on when loan was borrowed***

***Amount of benefit depends on ratio of loans in in-school status to ratio of loan not in an in-school status***



# ***Why Consolidate?***

**Borrowers can consolidate while  
they are in-school**

Borrowers won't lose their grace period

Borrowers will have one lender to deal  
with for in-school deferments,  
forbearance, ...





# ***Why Consolidate?***

## ***FLEXIBILITY***



Borrowers will have more repayment options than ever before...***as an example borrowers can payback their loan through payments tied to their income***

Borrowers can change their repayment plan at anytime



# ***Why Consolidate?***

## ***CONVENIENCE***

### ***Borrower has one Lender***

Borrowers can get everything on one statement

Borrowers have one contact location for deferments, forbearances, and/or changes to demographic information

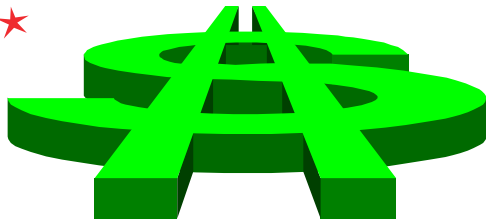
Borrowers' loan will not be sold to another lender unless the borrower chooses to do so



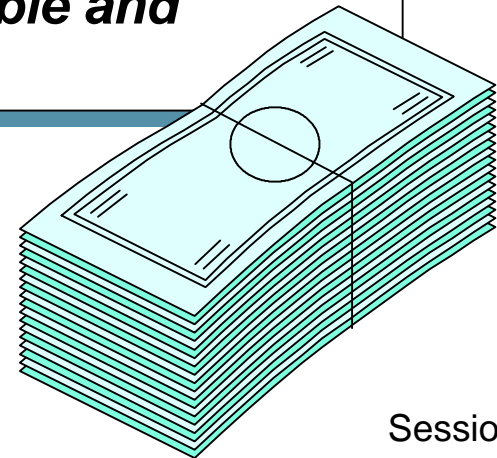


# ***Why Consolidate?***

## ***PROFITABILITY***



**Borrowers can consolidate defaulted loans**...*this affords borrowers the opportunity to repair their credit in a manner that is affordable, flexible and convenient.*





## ***Exit Counseling Your Student Borrowers***

**ADVISE** borrowers on the factors they should consider when deciding if consolidation is right for them.

**Interest Rate:** What is my current interest rate and will consolidation improve upon it?

**Monthly Payment:** What am I paying monthly and can I afford to continue with my payments in this manner?





# ***Exit Counseling Your Student Borrowers***

## **★ ADVISE ...**

**Payment Terms:** Would it help to be able to extend my payments over a longer period, and how does that affect me?

**Benefits:** What are my current lenders offering?



# ***Exit Counseling Your Student Borrowers***

## ***Help Them Compare***

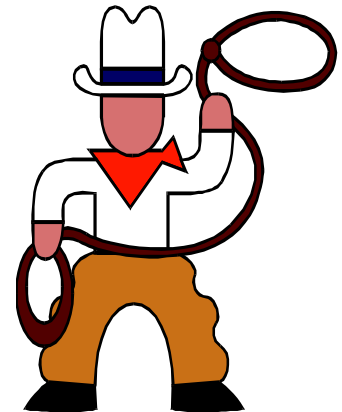


Provide borrowers with a general benefits comparison in the various loan programs



# ***Exit Counseling Your Student Borrowers***

## ***How Can We Help?***



- Electronic Exit Counseling Interface
- Direct Loan Web Page
- Personal Involvement in Exit Counseling Sessions
- Provide consolidation materials for borrowers

**“The Loan Arrangers”**



# ***Partnering in Borrower Assistance Customer Service Support***



- Call Center Support for Processing Status, Information, and Application Request.  
**(800) 557-7392**
- Website for On line Application Submission  
**[WWW.ED.GOV/DIRECTLOAN](http://WWW.ED.GOV/DIRECTLOAN)**
- Automated Application Request is available 24 hours per day, 7 days a week.
- TDD (Hearing Impaired Only) **(800) 557-7395**



# ***Partnering in Borrower Assistance***



## ***Loan Consolidation Operations***

LCC Louisville

10100 Linn Station Rd.

Louisville, KY 40223

LCC Montgomery

474 S. Court Street

Montgomery, AL 36104



# ***Partnering in Borrower Assistance Contact Us Personally***

***Denise Leifeste (202) 205-4709***

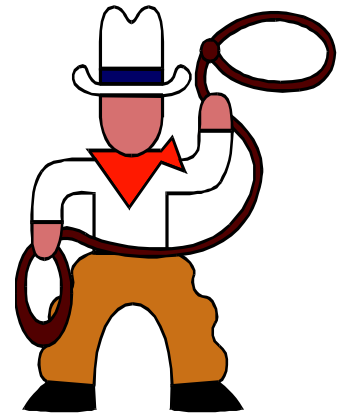
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*The Loan  
Arrangers*



## *Partnering in Solutions*

**Your Questions ==  
Our Answers**